



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## SUMMARY OF THE REGULAR MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS COMMITTEE

**HELD ON**  
**Thursday, June 7, 2007**  
**10:30 a.m., MST**

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in regular session in the 14<sup>th</sup> Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Michael Townsend, Chair, called the meeting to order at 10:30 a.m.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Michael Townsend, Chair  
Mr. Steven Zeman, Vice-Chair  
Dr. Keith Meredith

Excused: Mr. David Byers

A quorum of the Committee was present for the purpose of conducting business.

### **2. Review of Recently Conducted Audits**

- **Dobson Academy**
- **North Star Charter School**
- **Dysart Unified School District**
- **City of Chandler**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced Mr. Bernard Glick, the ASRS Chief Auditor, who updated the Committee on four recently conducted audits. The first audit was regarding the Dobson Academy. He stated the employer owed the ASRS \$3,060.31 due to a combination of contributions not being withheld from employees who met the 20/20 membership criteria or who worked for other ASRS eligible employers and were required

to make contributions. Mr. Glick also stated the employer had erroneously withheld ASRS contributions from an ineligible employee's earning over several fiscal years resulting in a return of \$7,883.34.

The North Star Charter School was also recently audited and Mr. Glick said that the primary finding was that North Star needed to maintain adequate time records to track the weekly work hours for its employees. He said the auditors had a difficult time determining ASRS membership eligibility status for five part-time employees over several fiscal years.

Mr. Glick then gave a brief overview of the audit performed on the Dysart Unified School District. He stated the employer owed the ASRS \$134,429.00 for contributions that were not collected from eligible employees. It was also noted that several eligible employees were not receiving health care supplements from the District via the ASRS.

In a recent audit of the City of Chandler, it was determined the City of Chandler should implement a weekly time reporting system for tracking hours and weeks worked for each non-contributing employee. Additionally, it was determined the City of Chandler did not withhold ASRS contributions from employees who met eligibility requirements resulting in \$26,625.61 owed the ASRS. The auditors also noted \$2,354.70 in contributions that were erroneously withheld from employees that were not eligible for ASRS membership.

### **3. Presentation, Discussion and Appropriate Action Regarding the 2007 Audit of ASRS Financial Controls**

Mr. Glick addressed the Committee regarding the recent audit of the ASRS internal controls over financial reporting. He stated the scope of the audit encompassed the examination and evaluation of management controls over systems that record, monitor and report financial data that ultimately appears in the Comprehensive Annual Financial Report (CAFR) of the agency. Mr. Glick indicated that the audit was very positive, but did make three recommendations including the PERIS pension maintenance process being more closely controlled, a tighter control on internal management of cash receipts, and inclusion of a documented review of all data for the CAFR prior to its release to the actuary. Mr. Glick added that the recommendations were agreed to by ASRS management and that, in some instances, the recommendations were already in the process of being enacted.

### **4. Presentation, Discussion and Appropriate Action Regarding the New ASRS External Auditor**

Mr. Guarino introduced two representatives from the new ASRS External Auditor's office. Mr. Corey Arvizu, CPA and Mr. Neil Galassi, CPA are the partner and senior auditor respectively from Heinfeld, Meech & Co., P.C., which was recently awarded the ASRS External Audit contract. Mr. Arvizu addressed the Committee on his firm's goals and commitments in providing services to the ASRS. He stated he and Mr. Galassi had spoken with several of the

Trustees and members of the ASRS staff to introduce themselves and explain the general nature of their focus.

**5. Presentation, Discussion and Appropriate Action Regarding the ASRS Risk Assessment and Proposed Risk Control Strategies for Fiscal Years 2008 and 2009**

Mr. Guarino addressed the Committee regarding the ASRS Risk Assessment. He presented the final Risk Assessment to the Committee which, he stated, was to provide reasonable assurance that the ASRS was taking steps to mitigate risks which threaten its administrative effectiveness. The Assessment itself contained a statement of risks and threats, the risk tolerance for every risk, an assessment of ASRS controls, the ASRS risk magnitude, and a two-year risk control strategy.

He also gave the "highlights" of the Assessment which included such items as the basis for risk tolerances, the ratings for controls and risk magnitude, reducing risk through inconsistent or unreliable customer service, potential risk and vulnerability in information systems, and risks associated with communications. Mr. Guarino also noted the Assessment was given to Heinfeld, Meech & Co. for review and comment. A memorandum from Heinfeld, Meech & Co. indicated the External Auditor's role in evaluation of the risk assessment process.

**Motion:** Mr. Steven Zeman moved the Committee accept the Risk Assessment as presented by ASRS Staff and that it be referred to the ASRS Board for review.

Dr. Keith Meredith seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**6. Presentation, Discussion and Appropriate Action Regarding the Deputy Director's Quarterly Information Technology (IT) Plan Report**

Mr. Bob Solheim, the ASRS Independent Advisory Consultant (IAC), updated the Committee on the status of various projects within the IT Plan from an agency-wide perspective.

Mr. Solheim presented a chart to the Committee regarding an assessment of the enterprise IT plan's progress. The chart was divided into the various key performance indicators of the plan. Each indicator was rated green (satisfactory progress), yellow (at risk), or red (unsatisfactory). All items were rated green, except for the item regarding staffing levels, which have been problematic due to resignations, particularly of consultants.

Mr. Kent Smith, Assistant Director, Information Services Division, gave an update on the current status of the various information technology items that were either completed or are currently in development. These areas included contribution posting, new retiree estimate benefit checks, online contribution reporting, pension payroll, survivor benefits, and web services. Mr. Smith noted that at a prior OC meeting, Committee members had requested a list of original estimates

and actual costs for each of the completed projects. Mr. Smith said there would be a delay in providing that information due to some additional analysis that needed to be completed before a final document could be produced.

#### **7. Request for Future Agenda Items**

Mr. Guarino and Mr. Glick requested a July Operations Committee meeting to facilitate discussion of the Bi-Annual Audit Plan. The Trustees consented to a July date and Mr. Guarino said he would review various potential dates.

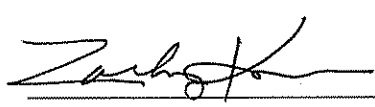
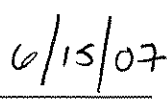
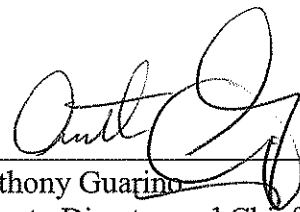
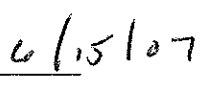
#### **8. Call to the Public**

No members of the public addressed the Committee.

#### **9. Adjournment of the OC**

Mr. Michael Townsend adjourned the meeting at 11:55 a.m.

Respectfully Submitted by,

			
Zachary Kucera	Date	Anthony Guarino	Date
Committee Secretary		Deputy Director and Chief Operations Officer	